with a capital of three millions and reserve fund of one million, if the reserve fund is turned into Ordinary shares and the earning power of the company remains the same there may obviously be a temptation to the directors to modify the prudent policy under which they had hitherto placed one hundred thousand a year to reserve, because if they continued it the shareholders would discover they were really no better off and that they simply got a lower rate of dividend on the larger amount of shares, and that their actual receipts from the company were exactly the same as before. And if the earning power of the company remained the same and the directors left off placing the one hundred thousand a year to reserve, and paid away the whole of the net profit in dividend, it is clear that the progressive expansion of the company's business would be to that extent checked. On the other hand, there is a contrary argument that as long as the company has a large reserve fund there is a possibility that dis-satisfied shareholders may agitate for a realisation of sufficient assets to enable that reserve fund to be distributed, especially if it has been wholly acquired out of past profits. In this case the capitalisation of the reserve fund puts this temptation out of their reach since, when once the reserve fund has been capitalised, it can only be got at by greedy share-holders through the process of

liquidation. Since, however, the shareholder in these times is not quite so short-sighted as he used to be, there is not perhaps really very much advantage in this point.